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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
AEON 信貸財務（亞洲）有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 900)

UNAUDITED RESULTS
FOR THE THREE MONTHS ENDED 31ST MAY 2023

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31st May 2023, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31st May 2023

	Notes	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000	1.3.2022 to 31.5.2022 (Unaudited) HK\$'000
Revenue	2	<u>379,953</u>	<u>279,059</u>
Interest income		317,631	233,883
Interest expense		<u>(20,422)</u>	<u>(7,796)</u>
Net interest income		297,209	226,087
Fees and commissions		31,759	28,890
Handling and late charges		30,563	16,286
Other income		1,123	6,415
Other gains and losses	4	<u>(6,894)</u>	<u>46</u>
Operating income		353,760	277,724
Operating expenses	5	<u>(176,807)</u>	<u>(150,828)</u>
Operating profit before impairment losses and impairment allowances		176,953	126,896
Impairment losses and impairment allowances		(68,049)	(36,798)
Recoveries of advances and receivables written-off		<u>8,554</u>	<u>8,226</u>
Profit before tax		117,458	98,324
Income tax expense		<u>(20,491)</u>	<u>(15,661)</u>
Profit for the period		<u>96,967</u>	<u>82,663</u>
Profit for the period attributable to: Owners of the Company		<u>96,967</u>	<u>82,663</u>
Earnings per share – Basic		<u>23.16 HK cents</u>	<u>19.74 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31st May 2023

	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000	1.3.2022 to 31.5.2022 (Unaudited) HK\$'000
Profit for the period	<u>96,967</u>	<u>82,663</u>
Other comprehensive (expenses) income		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(6,891)	11,520
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(2,605)	(9,262)
Net adjustment on cash flow hedges	<u>(12,378)</u>	<u>22,597</u>
Other comprehensive (expenses) income for the period	<u>(21,874)</u>	<u>24,855</u>
Total comprehensive income for the period	<u><u>75,093</u></u>	<u><u>107,518</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<u><u>75,093</u></u>	<u><u>107,518</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2023

		31.5.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	6	169,075	84,584
Right-of-use assets	6	82,455	43,077
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		90,242	97,133
Advances and receivables	7	1,074,755	1,239,940
Prepayments, deposits and other debtors		20,612	64,282
Derivative financial instruments	11	25,445	34,768
Deferred tax assets		2,996	10,183
		1,481,400	1,589,787
Current assets			
Advances and receivables	7	4,869,272	4,404,568
Prepayments, deposits and other debtors		71,669	67,009
Amount due from immediate holding company		5	1
Amount due from an intermediate holding company		31	32
Amount due from ultimate holding company		–	9
Derivative financial instruments	11	340	878
Time deposits		14,462	13,073
Bank balances and cash		374,491	382,323
		5,330,270	4,867,893
Current liabilities			
Creditors and accruals		236,439	202,983
Contract liabilities		24,134	23,897
Amounts due to fellow subsidiaries		47,558	44,485
Borrowings from immediate holding company	10	300,000	–
Amount due to an intermediate holding company		4,403	1,591
Bank borrowings	10	350,296	789,977
Lease liabilities		37,754	34,392
Derivative financial instruments	11	311	–
Tax liabilities		25,857	93,507
		1,026,752	1,190,832
Net current assets		4,303,518	3,677,061
Total assets less current liabilities		5,784,918	5,266,848

		31.5.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
	<i>Notes</i>		
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,698,076	3,622,983
		<hr/>	<hr/>
Total equity		3,967,553	3,892,460
		<hr/>	<hr/>
Non-current liabilities			
Bank borrowings	<i>10</i>	1,711,591	1,317,698
Lease liabilities		44,293	8,307
Derivative financial instruments	<i>11</i>	61,481	48,383
		<hr/>	<hr/>
		1,817,365	1,374,388
		<hr/>	<hr/>
		5,784,918	5,266,848
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 2023

	Share capital <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2022 (Audited)	269,477	47,255	(2,180)	(2,598)	3,321,588	3,633,542
Profit for the period	–	–	–	–	82,663	82,663
Fair value gain on equity instruments at fair value through other comprehensive income	–	11,520	–	–	–	11,520
Exchange difference arising from translation of foreign operations	–	–	–	(9,262)	–	(9,262)
Net adjustment on cash flow hedges	–	–	22,597	–	–	22,597
Total comprehensive income (expense) for the period	–	11,520	22,597	(9,262)	82,663	107,518
At 31st May 2022 (Unaudited)	269,477	58,775	20,417	(11,860)	3,404,251	3,741,060
At 1st March 2023 (Audited)	269,477	73,311	50,342	(11,613)	3,510,943	3,892,460
Profit for the period	–	–	–	–	96,967	96,967
Fair value loss on equity instruments at fair value through other comprehensive income	–	(6,891)	–	–	–	(6,891)
Exchange difference arising from translation of foreign operations	–	–	–	(2,605)	–	(2,605)
Net adjustment on cash flow hedges	–	–	(12,378)	–	–	(12,378)
Total comprehensive (expense) income for the period	–	(6,891)	(12,378)	(2,605)	96,967	75,093
At 31st May 2023 (Unaudited)	269,477	66,420	37,964	(14,218)	3,607,910	3,967,553

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2023

	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000	1.3.2022 to 31.5.2022 (Unaudited) HK\$'000
Net cash used in operating activities	(187,229)	(41,151)
Purchase of property, plant and equipment	(2,263)	(2,874)
Deposits paid for acquisition of property, plant and equipment	(62,802)	(15,293)
Placement of time deposits with maturity of more than three months	–	(63,238)
Release of time deposits with maturity of more than three months	6,780	61,102
Net cash used in investing activities	(58,285)	(20,303)
Repayment of lease liabilities	(14,995)	(12,755)
New borrowings from immediate holding company raised	3,150,000	–
Repayment of borrowings from immediate holding company	(2,850,000)	–
New bank loans raised	4,367,786	100,000
Repayment of bank loans	(4,406,567)	(65,000)
Net cash from financing activities	246,224	22,245
Net increase (decrease) in cash and cash equivalents	710	(39,209)
Effect of changes in exchange rate	(369)	(1,980)
Cash and cash equivalents at beginning of the period	387,508	588,963
Cash and cash equivalents at end of the period	387,849	547,774
Being:		
Time deposits with maturity of three months or less	13,358	61,733
Bank balances and cash	374,491	486,041
	387,849	547,774

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 2023

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial information relating to the year ended 28th February 2023 that is included in the unaudited results for the three months ended 31st May 2023 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements is as follows:

The Company will deliver the financial statements for the year ended 28th February 2023 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the three months ended 31st May 2023 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 28th February 2023.

2. REVENUE

	1.3.2023 to 31.5.2023 (Unaudited) HK\$’000	1.3.2022 to 31.5.2022 (Unaudited) HK\$’000
Interest income	317,631	233,883
Fees and commissions		
– Credit cards – issuing	16,252	15,193
– Credit cards – acquiring	9,908	6,211
– Insurance	5,599	7,486
Handling and late charges	30,563	16,286
	379,953	279,059

3. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

The Group's operating and reportable segments are as follows:

Credit cards	–	Provide credit card services to individuals and acquiring services for member-stores
Personal loans	–	Provide personal loan financing to individuals
Insurance	–	Provide insurance agency and brokerage services

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

1.3.2023 to 31.5.2023 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>303,693</u>	<u>70,661</u>	<u>5,599</u>	<u>379,953</u>
RESULT				
Segment results	<u>108,633</u>	<u>14,072</u>	<u>2,390</u>	125,095
Unallocated operating income				821
Unallocated expenses				<u>(8,458)</u>
Profit before tax				<u>117,458</u>

1.3.2022 to 31.5.2022 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>218,056</u>	<u>53,474</u>	<u>7,529</u>	<u>279,059</u>
RESULT				
Segment results	<u>75,678</u>	<u>13,848</u>	<u>4,246</u>	93,772
Unallocated operating income				5,583
Unallocated expenses				<u>(1,031)</u>
Profit before tax				<u>98,324</u>

Geographical information

The following is an analysis of the Group's revenue and results by geographical segments:

1.3.2023 to 31.5.2023 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	373,330	6,623	379,953
RESULT			
Segment results	123,821	1,274	125,095
Unallocated operating income			821
Unallocated expenses			(8,458)
Profit before tax			117,458

1.3.2022 to 31.5.2022 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	273,766	5,293	279,059
RESULT			
Segment results	93,080	692	93,772
Unallocated operating income			5,583
Unallocated expenses			(1,031)
Profit before tax			98,324

4. OTHER GAINS AND LOSSES

	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000	1.3.2022 to 31.5.2022 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) gain on hedging instruments released from cash flow hedge reserve	(6,225)	26,560
Exchange gain (loss) on a bank loan	6,225	(26,560)
Other exchange gains, net	116	31
Hedge ineffectiveness on cash flow hedges, net	101	101
Losses on disposal of property, plant and equipment	(7,111)	(86)
	<u>(6,894)</u>	<u>46</u>

5. OPERATING EXPENSES

	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000	1.3.2022 to 31.5.2022 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	10,466	7,092
Depreciation on right-of-use assets	14,463	12,906
Expenses relating to short-term leases	1,407	1,088
	15,870	13,994
General administrative expenses	49,904	42,769
Marketing and promotion expenses	25,267	21,089
Other operating expenses	22,258	17,877
Staff costs including directors' emoluments	53,042	48,007
	<u>176,807</u>	<u>150,828</u>

6. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the period, the Group recognised addition of approximately **HK\$100,615,000** (2022: HK\$3,292,000), **HK\$Nil** (2022: HK\$268,000), **HK\$1,543,000** (2022: HK\$1,677,000) and **HK\$53,896,000** (2022: HK\$7,182,000) on computer equipment, furniture and fixtures, leasehold improvements and right-of-use assets respectively.

7. ADVANCES AND RECEIVABLES

	31.5.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Credit card receivables	4,629,633	4,481,038
Personal loan receivables	1,380,430	1,263,929
	<u>6,010,063</u>	<u>5,744,967</u>
Accrued interest and other receivables	148,400	91,250
	<u>6,158,463</u>	<u>5,836,217</u>
Gross advances and receivables	(214,436)	(191,709)
Impairment allowances (<i>note 8</i>)		
	<u>5,944,027</u>	<u>5,644,508</u>
Current portion included under current assets	(4,869,272)	(4,404,568)
	<u>1,074,755</u>	<u>1,239,940</u>
Amount due after one year		

8. IMPAIRMENT ALLOWANCES

	31.5.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	137,541	122,910
Personal loan receivables	72,659	66,229
Accrued interest and other receivables	4,236	2,570
	<u>214,436</u>	<u>191,709</u>

An analysis of movements in impairment allowances during each of the two periods ended 31st May 2023 and 31st May 2022 are set out as below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2023	97,642	18,878	75,189	191,709
Net addition (repayment) in advances and receivables	5,970	4,260	10,531	20,761
Transfer to 12 months expected credit loss (Stage 1)	21,936	(21,548)	(388)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,403)	4,503	(3,100)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(57)	(13,455)	13,512	–
Total transfer between stages	20,476	(30,500)	10,024	–
Remeasurement of expected credit loss during the period	(14,904)	31,681	30,511	47,288
Amounts written-off as uncollectable	–	–	(45,193)	(45,193)
Exchange realignment	(25)	(19)	(85)	(129)
At 31st May 2023	<u>109,159</u>	<u>24,300</u>	<u>80,977</u>	<u>214,436</u>

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2022	72,719	22,067	86,357	181,143
Net addition (repayment) in advances and receivables	4,188	(5,463)	(2,730)	(4,005)
Transfer to 12 months expected credit loss (Stage 1)	19,615	(18,915)	(700)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,838)	3,742	(1,904)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(7)	(15,511)	15,518	–
Total transfer between stages	17,770	(30,684)	12,914	–
Remeasurement of expected credit loss during the period	(20,531)	34,166	27,168	40,803
Amounts written-off as uncollectable	–	–	(42,107)	(42,107)
Exchange realignment	49	39	284	372
At 31st May 2022	<u>74,195</u>	<u>20,125</u>	<u>81,886</u>	<u>176,206</u>

9. ANALYSIS OF ADVANCES AND RECEIVABLES BY STAGE

An analysis in the gross amount of advances and receivables as at 31st May 2023 and 28th February 2023 are set out as below:

	31.5.2023 (Unaudited)		28.2.2023 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Stage 1	5,903,610	95.9	5,582,236	95.7
Stage 2	65,746	1.0	84,229	1.4
Stage 3	189,107	3.1	169,752	2.9
Total	<u>6,158,463</u>	<u>100.0</u>	<u>5,836,217</u>	<u>100.0</u>

* *Percentage of gross advances and receivables*

Stage 1 covers the advances and receivables that have not deteriorated significantly in credit quality since initial recognition. Stage 2 covers the advances and receivables that have deteriorated significantly in credit quality since initial recognition. Stage 3 covers the advances and receivables for which credit loss events occur and become credit-impaired.

10. BANK BORROWINGS/BORROWINGS FROM IMMEDIATE HOLDING COMPANY

	31.5.2023 (Unaudited)		28.2.2023 (Audited)	
	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000
Carrying amount repayable (<i>Note</i>)				
Within one year	350,296	300,000	789,977	–
Within a period of more than one year but not more than two years	297,507	–	201,917	–
Within a period of more than two years but not more than five years	1,414,084	–	1,115,781	–
	<u>2,061,887</u>	<u>300,000</u>	<u>2,107,675</u>	<u>–</u>
Amount repayable within one year included under current liabilities	<u>(350,296)</u>	<u>(300,000)</u>	<u>(789,977)</u>	<u>–</u>
	<u>1,711,591</u>	<u>–</u>	<u>1,317,698</u>	<u>–</u>

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2023 (Unaudited)		28.2.2023 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Foreign currency forward contracts	–	311	–	–
Interest rate swaps	25,785	4,014	35,646	942
Cross-currency interest rate swaps	–	57,467	–	47,441
	<u>25,785</u>	<u>61,792</u>	<u>35,646</u>	<u>48,383</u>
Current portion	<u>(340)</u>	<u>(311)</u>	<u>(878)</u>	<u>–</u>
Non-current portion	<u>25,445</u>	<u>61,481</u>	<u>34,768</u>	<u>48,383</u>

All derivative financial instruments entered by the Group that remain outstanding at 31st May 2023 and 28th February 2023 are for hedging purposes. The classification of current/non-current for derivative financial instruments is in accordance with the maturity or settlement dates of the corresponding bank borrowings and purchases settled by foreign currency, the designated hedged items.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

With the end of the COVID-19 pandemic (the “Pandemic”) as a public health emergency, commercial and social activities returned to a state closer to normal during the three months ended 31st May 2023 (“1Q2023”, or the “Reporting Period”). However, it will still take time for consumers to regain the confidence in the local and wider economic outlook to reach pre-Pandemic consumption levels. The Group continued to use targeted marketing and successful marketing promotions such as “Muk Muk Buy to Earn” to boost sales and receivables growth momentum, with overall sales in 1Q2023 increasing by 39.4% compared with the first quarter of last year (“1Q2022”, or the “Previous Period”), and the gross advances and receivables balance up by 5.5% from the end of February 2023. The Group’s effective credit risk management, coupled with the decline in unemployment in Hong Kong, has contributed to continued stability in asset quality, with the percentage of advances and receivables with credit risk increased significantly and credit impaired (i.e. stage 2 and stage 3 receivables) to total advances and receivables decreasing from 4.3% as at 28th February 2023 to 4.1% as at 31st May 2023.

To accelerate its digital transformation, the Group’s new card and loan system project, AEON Netmember service and “AEON HK” Mobile App with enhanced cybersecurity protection were successfully rolled out in early March 2023, which facilitates more flexible creation and delivery of new payment solutions and product benefits, as well as easy access to better data analytics tools and services in the near future. In order to diversify its branch network and meet a growing demand for face-to-face advisory services from customers, the Group has continued to revamp and expand its branch network. In late March 2023, its Tuen Mun branch was relocated to a new premises with nearly double the floor area and a dedicated insurance consultation counter to provide an enhanced customer experience. Apart from business growth, the Group also places great emphasis on integrating sustainability into its business operations. In early April 2023, the new branch uniforms made of eco-friendly materials were put into use. Adoption of the new uniform made from recycled resources helps reduce the carbon footprint. Such uniform also allows staff members to enjoy a greater comfort that facilitates to a higher work efficiency, thereby transforming their overall work experience.

Financial Review

During the Reporting Period, the Group achieved profit before tax of HK\$117.5 million, an increase of 19.5% or HK\$19.1 million when compared with the Previous Period. With income tax expense of HK\$20.5 million, the Group’s profit after tax increased by 17.3% or HK\$14.3 million to HK\$97.0 million from HK\$82.7 million in the Previous Period. Earnings per share increased from 19.74 HK cents to 23.16 HK cents for the Reporting Period.

The net debt to equity ratio increased from 0.4 as at 28th February 2023 to 0.5 as at 31st May 2023, while the equity to total assets ratio was 58.2% and 60.3% as at 31st May 2023 and 28th February 2023, respectively.

Net asset value per share (after final dividend) as at 31st May 2023 and 28th February 2023 was HK\$9.3 and HK\$9.1, respectively.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for 1Q2023 was HK\$380.0 million, an increase of 36.2%, or HK\$100.9 million, compared with HK\$279.1 million in 1Q2022.

Net interest income

With the continued increase in the revolving credit card receivable and personal loan receivables balances, together with the increase in interest rates on card credit purchases, the Group recorded a 35.8% or HK\$83.7 million increase in interest income, from HK\$233.9 million in the Previous Period to HK\$317.6 million in the Reporting Period.

Following the increase in both borrowings and market interest rates, the Group's interest expenses increased by 162.0% or HK\$12.6 million to HK\$20.4 million from HK\$7.8 million in the Previous Period. The average funding cost increased from 2.6% in the Previous Period to 3.8% in the Reporting Period.

As a result, the Group's net interest income for the Reporting Period was HK\$297.2 million, an increase of HK\$71.1 million over the Previous Period.

Operating income

Although card credit purchases increased remarkably during the Reporting Period, the attractive cash rebate scheme offered to stimulate sales resulted in an increase in cash rebate offset against commission income leading to only a mild increase in fees and commission of HK\$1.1 million to HK\$16.3 million from the credit card issuance business in the Reporting Period. For credit card acquiring business, fees and commissions increased by HK\$3.7 million to HK\$9.9 million in the Reporting Period as sales increased due to an increase in the number of card acquiring merchants and average transaction size. Nevertheless, due to the adaptation period after the change in insurance distribution channels, fees and commissions from the insurance intermediary business fell from HK\$7.5 million in the Previous Period to HK\$5.6 million in the Reporting Period. Overall, the Group recorded an increase of HK\$2.9 million in fees and commissions to HK\$31.7 million from HK\$28.9 million in the Previous Period.

As a result of higher demand for cash advances and increase in customers making minimum due payments in 1Q2023, handling and late charges increased by HK\$14.3 million to HK\$30.6 million in the Reporting Period. Following the completion of the new card and loan system project, a loss on disposal of property, plant and equipment of HK\$7.1 million was recognized in the Reporting Period, while government grants of HK\$0.8 million were recognized in the Previous Period.

The Group's operating income for 1Q2023 recorded an increase of HK\$76.0 million to HK\$353.8 million from HK\$277.7 million in the Previous Period.

Operating expenses

In order to capture the growing consumer demand after the end of the Pandemic, the Group undertook more marketing and promotional activities than in the Previous Period and as a result, marketing and promotion expenses increased by HK\$4.2 million to HK\$25.3 million in the Reporting Period. With the additional manpower incurred to support the launch of the card and loan system replacement project and the increase in card association fees as a result of the increase in card sales, staff costs and general administrative expenses increased by HK\$5.0 million and HK\$7.1 million, respectively, against the Previous Period.

Although overall operating expenses recorded an increase of HK\$25.9 million to HK\$176.8 million from HK\$150.8 million in the Previous Period, the cost-to-income ratio decreased to 50.0% from 54.3% in the Previous Period due to the increase in operating income.

At the operating level before impairment losses and impairment allowances, the Group recorded operating profit of HK\$177.0 million for the Reporting Period, representing an increase of 39.4% or HK\$50.1 million compared with the Previous Period.

Impairment losses and impairment allowances

In the Previous Period, the outbreak of the fifth wave of the Pandemic slowed down the growth of the gross advances and receivables balance and the number of bankruptcy petition filings dropped, which led to a lower level of impairment losses and impairment allowances in 1Q2022. Although the Group has reduced the proportion of advances and receivables with credit risk increased significantly and credit impaired through effective credit risk management, the substantial increase in gross advances and receivables after the Pandemic in 1Q2023 resulted in an increase in impairment losses and impairment allowances of HK\$31.2 million to HK\$68.0 million in the Reporting Period from HK\$36.8 million in the Previous Period.

Statement of Financial Position Analysis

The Group's total equity as at 31st May 2023 was HK\$3,967.6 million, representing an increase of 1.9% or HK\$75.1 million compared with the balance of HK\$3,892.5 million as at 28th February 2023. Total assets as at 31st May 2023 were HK\$6,811.7 million, compared with HK\$6,457.7 million as at 28th February 2023.

Gross advances and receivables increased by 5.5% or HK\$322.3 million to HK\$6,158.5 million as at 31st May 2023 from HK\$5,836.2 million as at 28th February 2023. Gross advances and receivables with credit risk increased significantly and credit impaired were HK\$254.0 million and HK\$254.9 million as at 28th February 2023 and 31st May 2023 respectively. Impairment allowances stood at HK\$214.4 million as at 31st May 2023, representing 3.5% of gross advances and receivables, compared with HK\$191.7 million as at 28th February 2023, which represented 3.3% of gross advances and receivables.

The Group's bank borrowings as at 31st May 2023 were HK\$2,061.9 million, with HK\$350.3 million repayable within one year, as compared with a balance of HK\$2,107.7 million as at 28th February 2023, with HK\$790.0 million repayable within one year. As at 31st May 2023, the Group had borrowings of HK\$300.0 million from its immediate holding company, repayable within one year.

Segment Information

During the Reporting Period, revenue from credit card operations rose by 39.3%, or HK\$85.6 million, to HK\$303.7 million from HK\$218.1 million in the Previous Period due to the increase in credit card receivables balances. With stable asset quality, the segment results for the Reporting Period recorded an increase of HK\$32.9 million to HK\$108.6 million from HK\$75.7 million in 1Q2022.

As for personal loan operations, revenue in 1Q2023 increased by 32.1% or HK\$17.2 million to HK\$70.7 million from HK\$53.5 million in the Previous Period as receivables balances recovered. However, with the increase in funding costs and impairment losses and impairment allowances in the Reporting Period, the segment results only increased slightly by HK\$0.3 million or 1.6% to HK\$14.1 million from HK\$13.8 million in 1Q2022.

The insurance intermediary business was undergoing a period of change in tactics and products due to restructuring of the distribution channels. As a result, the growth of the insurance intermediary business suffered slightly, with segment revenue and results amounting to HK\$5.6 million and HK\$2.4 million, respectively, in the Reporting Period, compared with HK\$7.5 million and HK\$4.2 million in the Previous Period.

By geographical location, revenue from Hong Kong operations recorded an increase of 36.4% or HK\$99.6 million to HK\$373.3 million in 1Q2023 from HK\$273.8 million in 1Q2022 due to higher receivables balances, while the segment results increased by 33.0% or HK\$30.7 million to HK\$123.8 million from HK\$93.1 million in 1Q2022.

As for its Mainland China operations, the Group focused on improving the financial performance and diversifying loan products under its microfinance subsidiary in Shenzhen. Sales of this subsidiary continued to pick up in the Reporting Period, resulting in an increase in revenue of HK\$1.3 million to HK\$6.6 million from HK\$5.3 million in 1Q2022. Moreover, following completion of the liquidation process of the microfinance subsidiary in Tianjin, the results of this segment increased to HK\$1.3 million in the Reporting Period from HK\$0.7 million in 1Q2022.

Prospects

With strong government support to boost post-Pandemic recovery, economic activity in Hong Kong is expected to have continued rebound in the second quarter of 2023/24. Following successful marketing and brand building efforts, the Group will place greater emphasis on making the best use of both digital and traditional marketing channels to promote its credit card and personal loan products and to roll out unique mass marketing programs to enrich the customer experience and capture increasing demand of consumer finance products. Although the credit environment is expected to remain challenging due to the expected rise in market interest rates, the Group will continue to increase its receivables while closely monitoring credit policy and funding source so as to minimize credit and liquidity risk.

In terms of technology development, with the completion of the card and loan system replacement project, the Group will enhance its digital marketing and offer new payment solutions to its customers. In addition, data analytics tools are ready to support the improvement of the effectiveness of the Group's marketing, credit assessment and credit management activities.

For the Mainland China businesses, the microfinance subsidiary in Shenzhen will continue to focus on exploring business opportunities in the Greater Bay Area to grow its receivables with sound asset quality and abundant financial resources.

With a strong capital position, the Group will continue to devote resources to expanding its branch services, providing higher quality customer experiences, accelerating digitalization and exploring new investment opportunities to expand and diversify its businesses.

Please note that the quarterly results of the Group presented in this announcement have not been audited or reviewed by the Company's auditors. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Tomoharu Fukayama
Managing Director

Hong Kong, 29th June 2023

As at the date of this announcement, the Board comprises Mr. Tomoharu Fukayama (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), and Mr. Wei Aiguo as Executive Directors; Mr. Tomoyuki Mitsufuji (Chairman) and Ms. Jin Huashu as Non-Executive Directors; and Mr. Lee Ching Ming Adrian, Ms. Shing Mo Han Yvonne, Ms. Junko Dochi and Mr. Choi Ping Chung as Independent Non-executive Directors.